The 'dreadful' decade: families face huge squeeze on finances

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Households are facing the sharpest squeeze on living standards since at least the Second World War as inflation is predicted to soar and wages slow in the run-up to the next election.

Real pay will still be below pre-2008 crisis levels in 2021 and may take years to catch up, according to the Institute for Fiscal Studies, a public think tank.

"One cannot stress enough how dreadful that is. More than a decade without real earnings growth," Paul Johnson, director of the IFS, said. "We have certainly not seen a period remotely like it in the last 70 years, or maybe even 100."

The Resolution Foundation, another economic think tank, claimed that there had not been an equivalent decade-long collapse in inflation-adjusted earnings since the First World War. "This decade is now set to be the weakest one for wage growth since the 1900s," Torsten Bell, the director of Resolution, said.

Both pieces of analysis were based on forecasts published by the Office for Budget Responsibility alongside the autumn statement. They predicted lower growth, higher borrowing and pain for households because of Brexit.

The forecasts provoked a backlash from Tory MPs who said that they were too gloomy and likely to be wrong.

Even the chancellor appeared to keep his distance from the figures yesterday. Philip Hammond told the BBC: "The OBR itself has said there was an unusually high degree of uncertainty around the forecasts they have made in the autumn statement."

Iain Duncan Smith, the former Tory leader, denounced the "utter doom and gloom" predictions, adding that the OBR had "been wrong in every single forecast they've made so far". Jacob Rees-Mogg, the Tory MP, said it had "lunatic" assumptions.

The OBR chairman hit back at critics, however, saying that Brexit supporters who attacked him for being gloomy were doing so on the basis of "hopes" rather than "information".

Robert Chote told *The Times*: "I think the Brexit economists, the people like Jacob Rees-Mogg, said they can see a better outcome at the end of this process than we've put down in the forecast. They have particular hopes where you will end up in trade negotiations. But I think they have recognised that we have to build a forecast of the information that we have and the information we have at the moment and we don't know how policy is going to go."

The IFS backed the OBR, saying that if anything their forecasts were "noticeably more upbeat" than those of some other experts, including the Bank of England.

Today, leading Brexit supporting MPs including Michael Gove, Gisela Stuart and Steve Baker will claim that the OBR has revealed a £32 billion Brexit dividend for Britain.

They lead a 13-strong group of MPs and MEPs who will say: "The OBR has revealed that the British people will get back over £10 billion net a year once we leave the EU. We believe that this Brexit dividend should be spent on our priorities — the most important of which is our NHS.

"'Britain has a hugely exciting future outside of the EU. We will be able to do trade deals with fast-growing countries, create a fair immigration system and we will once again be able to spend our money on our priorities."

The OBR document contains details of Britain's current net and gross payments to the EU. It shows that if Britain had not voted to leave the EU then it would send about £10 billion a year to Brussels from 2019, a sum which Brexit supporting MPs now say can all be used for domestic priorities.

The Treasury said that no decision had been made on what happens to EU funds once Britain leaves. There is a widespread expectation that payments will still have to go to Brussels to ensure access to the single market.

In its analysis of the autumn statement, the IFS said that although real wages would rise every year, the improvement would be slow.

Real wages are currently about 5 per cent below pre-crisis levels. In March, before the referendum, they were expected to have closed the gap by 2020 but recovering the lost ground will now take years longer.

According to the OBR, the collapse in the pound will drive up inflation just as slower economic growth restrains pay.

The IFS said that the combination meant wages would be 3.7 per cent lower in 2021 than the OBR had forecast before the referendum. According to the Resolution Foundation, the shortfall meant workers would on average be earning £830 a year less than expected.

"This is the defining characteristic of the great recession," Andrew Hood, a research economist at the IFS, said.

Welfare recipients will be hit hardest over the next five years, the IFS claimed, as the freeze on working-age benefits bites harder now that inflation is forecast to rise more quickly.

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VIDEO
Matt Chorley assesses the impact of the autumn statement on Britain
On mobile, tablet and at thetimes.co.uk

TOBY MELVILLE/REUTERS

The Treasury was forced to deny that Philip Hammond, with Theresa May yesterday, wants to scrap pension tax relief

£10bn hit to stamp duty receipts

Tom Knowles Property Correspondent

A collapse in the upper end of the housing market and a Brexit-induced slowdown in property deals has blown a £10 billion hole in the Treasury's plans for stamp duty receipts.

The Office for Budget Responsibility (OBR) said that it now expected the government to collect £66.6 billion from stamp duty receipts over the next five years, down from the £76.2 billion it forecast in March.

The £9.6 billion reduction in overall receipts comes despite a surprise boost from the additional tax on second homes and buy-to-let properties that was introduced in April. The OBR now expects the government to make £6.9 billion from this tax alone over the next five years, compared with its estimate of £3.8 billion in March.

The OBR said, however, that overall receipts from stamp duty had been "much weaker than expected" so far this year. The independent fiscal watchdog said this was due to uncertainty before and after the EU referendum. Lucian Cook, director of residential research at the estate agent Savills, said that property transactions were likely to remain lower in the coming years as Brexit continued to have an impact. He said: "Transaction levels are going to slow down next year and right through the negotiation period for Brexit. We believe they will come down by 16 per cent over two years. If there is an element of underlying economic uncertainty, then people are going to be more reluctant about moving."

Annual house price growth is also expected to slow to 3.4 per cent next year as the growth in each household's average earnings fall, causing a further reduction in stamp duty receipts.

The OBR said, however, that the weakness in sales so far this year had been concentrated at the top end of the housing market, with homes worth at least £1 million down by more than 15 per cent compared with last year. Estate agents say this is due to George Osborne's change to stamp duty rates at the end of 2014.

The reform was introduced to make the tax system fairer for those at the lower end of the market. While it meant less tax for those buying homes priced up to £925,000, it prompted a rise in transaction costs for properties above that limit, adding 10 per cent to each sale. Homes costing at least £1.5 million had 12 per cent added to their bill.

George Osborne sought a fairer tax

Some estate agents say that this has led to a block in the housing chain, as homeowners in properties worth more than £1 million chose to renovate rather than move. The impact has been particularly marked in London, with home sales down by almost half before and after the referendum.

The OBR now expects overall stamp duty receipts for the rest of the year to be £1.6 billion lower than forecast in March. Commercial property transactions have also fallen by 12.5 per cent compared with last year.

The fall comes despite the extra stamp duty tax for buy-to-let properties and second homes bringing in £3.1 billion more for the Treasury than originally estimated over the next five years.

When the measure was announced last November, the OBR estimated that the additional tax would generate £3.8 billion over the next five years. The OBR now believes that the Treasury will collect £6.9 billion from the tax up to 2021.

High earners benefit from billions in pension tax relief

Francis Elliott Political Editor

Tax relief on pensions savings cost £48 billion last year, with two thirds of the cash claimed by higher-rate taxpayers, the Treasury has warned.

The tax break is "one of the most expensive ... offered by the government", according to a consultation document released by 11 Downing Street.

The document also points out that the bill is set to grow as reforms bring more employees into workplace pension schemes. It was "important that resources focus where there is most need," it adds.

The publication of the paper alongside Wednesday's autumn statement led to speculation, denied by the Treasury, that Mr Hammond is preparing to scale back tax reliefs next year.

George Osborne abandoned plans to scale back pension tax reliefs for higher earners before last year's budget in the face of opposition from Tory MPs.

"The cost of tax and national insurance contributions relief on pensions savings is one of the most expensive sets of relief offered by the government," the document states. "In 2014 to 2015 this cost was around £48 billion, with around two thirds of the tax relief going to higher and additional rate taxpayers."

Tom McPhail, head of retirement policy at Hargreaves Lansdown, said it was significant that the Treasury had flagged up both the current costs and the fact that the bill would rise because of efforts to enrol workers automatically in pension schemes. "It's in the pipeline, it's just a question of when. Tax relief changes will come later in this parliament, if not next year," he said.

A Treasury spokesman denied that Mr Hammond was preparing the ground for a return to one of the most controversial reforms, however. "We completely reject this suggestion — it is not true," he said. "The chancellor did not announce any further changes to pensions tax relief in the autumn statement and has no plans to do so."

Tweets pique McDonnell

Henry Zeffman

John McDonnell has expressed his irritation at Labour MPs who were staring at their phones in the Commons during his response to the autumn statement.

One picture of the shadow chancellor's Commons reply to Philip Hammond on Wednesday showed 18 Labour colleagues on their mobiles while Mr McDonnell was speaking.

"The new style in Parliament is people tweeting all the time. They're doing a running commentary. It doesn't look good, but that's what happens," Mr McDonnell told *Good Morning Britain*.

"If you looked at MPs opposite me and those behind, I held their attention. Even though they're tweeting, they're tweeting about what I'm saying."

Commons rules permit MPs to use mobiles "to keep up to date with emails ... provided that it causes no disturbance." Lindsay Hoyle, the deputy speaker, said: "The world moves on, but it's not about being obvious — it's about ensuring that you be discreet."

MPs free to make a racket in Bercow's court of good cheer

Patrick Kidd
Political Sketch

As the umpire of the House of Commons chamber, John Bercow's preference is for short rallies. The Speaker is always keen to cut down a rambling bore in mid-discourse, reminding him (they are always men) to be more succinct. His ideal tussle is one of serve and volley, appropriate given that they play on a green court.

That is unless the subject matter is close to the Speaker's heart. Steven Paterson (SNP, Stirling) wanted to raise one of his constituents, who has just become the world No 1 in tennis, and was given far greater indulgence by Mr Bercow to talk about his feats — and those of his brother, who is No 1 in doubles — than many MPs would get.

"I watched both Andy and Jamie [Murray] several times last week," Mr Speaker explained to the House. "I bellowed on regular occasions in their support, albeit in an entirely orderly manner."

One of the perks of being Speaker is that Mr Bercow, who has written a book on his favourite players, gets lots of invitations to watch tennis. The register of members' interests shows that in the past year alone he has watched three days at the World Tour Finals at the O2 Arena, two days at Wimbledon, the Davis Cup semi-finals and final and the events at Queen's Club and Eastbourne.

After Mr Paterson had finished his eulogy and David Lidington, the leader of the Commons, had added the Murrays, Mr Bercow felt there was still more to say. He asked: "Would you like a debate on the matter?"

"You can't take part," Chris Bryant (Lab, Rhondda) said quickly. "No, I can't," said Mr Bercow with a sigh, "but if the member for Stirling wants a debate, I have a hunch he might secure it." Well, it's not as if there is anything else that would be a better use of parliamentary time.

Mr Bercow was in a very jolly mood yesterday. During environment questions, his eye fell upon a beloved name on the order paper but he couldn't see the man in his usual seat. "Ah, young Gove," the Speaker said. "Where is the fella?"

Michael Gove (C, Surrey Heath), who normally sits at the Rees-Mogg end of the hall, eyeballing the Scot Nats, was loitering on the backmost bench, straight behind the dispatch box. "I'm here," he said, standing suddenly with hands in pockets like a naughty chorister. "Could I have question four, please, sir?"

"What an indescribable delight," Mr Bercow purred. "He's perambulated to a different part of the chamber from that which he ordinarily inhabits, but I'm sure that we will enjoy the same eloquence." (He really does speak like this.) "I'm a migratory species," Mr Gove said.

He wanted to ask about the fate of fish post-Brexit but detecting a generosity from the Speaker popped up again later to ask about other foodstuffs, which he declared were flourishing. "We have record levels of hard cheese and sour grapes on the other side of the chamber," he said. "And in my constituency is a very successful brewery."

He then asked Andrea Leadsom, the secretary of state for the environment, to come to a piss-up in it. Or rather a knees-up, since the well-mannered Mr Gove would never say anything so coarse.

"I've always thought of the right honourable gentleman sitting and reading Proust," Mr Bercow said. "Rather than having a knees-up. One's imagination is challenged." Perhaps he now imagines Mr Gove performing the can-can on *Strictly Come Dancing*. New Balls please, as they say in his favourite sport.